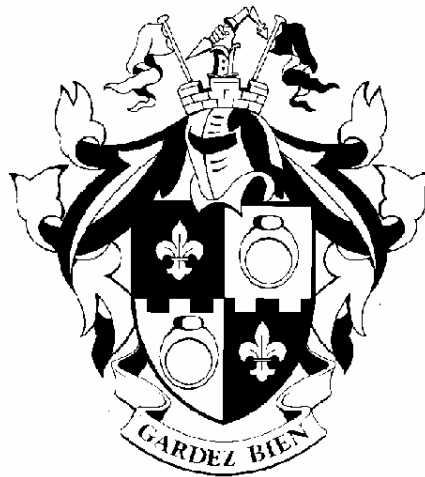


OFFICE OF INSPECTOR GENERAL

**2004 ANNUAL REPORT
TO THE COUNTY COUNCIL
AND COUNTY EXECUTIVE**

October 1, 2004





OFFICE OF INSPECTOR GENERAL

Norman D. Butts
Inspector General

MEMORANDUM

October 1, 2004

TO: Steven A. Silverman, President
County Council

Douglas M. Duncan
County Executive

FROM: Mary Wengraf Meier
Acting Inspector General

SUBJECT: **2004 Annual Report**

Attached in accordance with Montgomery County Code §2-151 is the 2004 Annual Report for the Office of Inspector General. Many of the items mentioned in the report are available on-line at www.montgomerycountymd.gov. If you have any questions or comments, please do not hesitate to contact me.

Attachment



**ANNUAL REPORT
FY 2004**

TABLE OF CONTENTS

	Page
TRANSMITTAL LETTER	
1. WORK PLAN ACTIVITIES	1
1.1 Current Work Plan.....	2
1.2 Audits – Completed And Works In Progress	2
1.2.1 Board Of Investment Trustees:	
Administrative Management Practices Performance Audit.....	3
1.2.2 Montgomery County Government Ride-On Management Overtime	3
1.3 Inspections – Completed And Works In Progress	3
Montgomery County Government Commercial Driver's	
License Review	4
1.4 Complaints Processing.....	4
Complaints.....	4
1.5 Investigations – Completed And Works In Progress.....	6
Board Of Investment Trustees – Conduct Of A Former Director	6
1.6 Follow-Up.....	6
1.7 Integrity Checks	7
1.8 Administrative Issues	7
1.8.1 Professional Development.....	7
1.8.2 Quality Control.....	8
1.8.3 Professional Liaison.....	8
1.8.4 Staff Turnover	9
2. BENCHMARKING	9
2.1 Staff Time Allocation	10
2.2 Cost Per Billable Hour.....	10
2.3 Taxpayer Return.....	11
2.4 Best Practices.....	12
3. CONCLUSION	12

TABLE OF CONTENTS (Continued)

Page

LIST OF TABLES

Table 1 Comparison Of Complaints – FY02, 03, and 04.....	5
Table 2 Audit Staffing and Spending Comparisons	9
Table 3 Staff Time Allocation	10
Table 4 Cost Per Billable Hour	11

LIST OF ABBREVIATIONS

BIT	Board of Investment Trustees
CDL	Commercial Driver's License
CPA	Certified Public Accountant
CPE	Continuing Professional Education
DPWT	Department of Public Works and Transportation
FY	Fiscal Year
IDEA	Interactive Data Extraction & Analysis (Program)
NALGA	National Association of Local Government Auditors
OIG	Office of Inspector General
WMATA	Washington Metropolitan Area Transit Authority

**MONTGOMERY COUNTY, MARYLAND
OFFICE OF INSPECTOR GENERAL**

**ANNUAL REPORT
FY 2004**

1. WORK PLAN ACTIVITIES

The Office of Inspector General (OIG) has three broad goals that form the basis for the office's work plan activities. These goals are to review the effectiveness and efficiency of programs and operations of County government and independent County agencies; prevent and detect fraud, waste, and abuse in government activities; and propose ways to increase the legal, fiscal, and ethical accountability of County government departments and County-funded agencies. OIG activities include performance audits; fraud, waste, and abuse investigations; inspections; integrity checks; and follow-up to findings and recommendations made in earlier reports. OIG activities may encompass review of any of the programs and operations of County government and independent County agencies including the Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, the Washington Suburban Sanitary Commission, Montgomery College, the Housing Opportunities Commission, and the Revenue Authority. In addition OIG may review any other governmental agency (except a municipal government or a state-created special taxing district) for which the County Council appropriates or approves funding, sets tax rates, makes levies, or approves programs or budgets.

To guide OIG in the performance of its duties the office has adopted the following professional standards:

- Government Auditing Standards, 2003 Revision, Comptroller General of the United States, United States General Accounting Office, June 2003. (Audits begun before January 2004 used the June 1994 revision.)
- Quality Standards for Investigations, President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency, December 2003.
- Quality Standards for Inspections, President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency, March 1993.

Policies and procedures established by OIG and work performed by this office conform to these standards to the extent possible. The standards cover such things as independence, due professional care, quality control, fieldwork, staff qualifications, and reporting.

1. WORK PLAN ACTIVITIES (Continued)

1.1 Current Work Plan

The previous inspector general was appointed to a full four-year term beginning July 1, 2001. The inspector general is required to adopt a work plan within six months of appointment. During the first six months of his term, the inspector general met with community leaders and interested citizens regarding any questions or concerns they had about County operations. That process also gave the inspector general an opportunity to seek recommendations and suggestions for the new work plan from the County Executive, the County Council, the heads of independent County agencies, employees of County government and independent County agencies, and employee organizations. In addition, OIG updated and expanded its risk assessment tool to include most agencies identified in the inspector general enabling legislation. This risk assessment tool rated 733 programs in County government, Montgomery County Public Schools, Maryland-National Capital Park and Planning Commission, Montgomery College, Housing Opportunities Commission, and Washington Suburban Sanitary Commission.

The work plan for the period January 1, 2002 through December 31, 2005 was submitted to the County Council and County Executive in December 2001. This work plan was organized into three program areas: to prevent and detect fraud, waste, and abuse; to increase legal, fiscal, and ethical accountability; and to review efficiency and effectiveness of programs and operations. A fourth area, administrative items, was identified encompassing such tasks as required continuing professional education for staff, contract administration, budgeting, preparing the annual report, and participating in benchmarking activities.

1.2 Audits – Completed And Works In Progress

An audit is a formal, methodical examination or review of the accounts, records, transactions, or activities (or parts thereof) of an organization, program, or individual. OIG audits may include, but not be limited to, a focus on the following issues and questions:

- Compliance. Is the office or department complying with requirements of laws and regulations applicable to the program under review?
- Management Controls. Does the office or department have an adequate management control system for measuring, reporting, and monitoring the program's efficiency and effectiveness?
- Procurement. Is the office or department following sound procurement practices?
- Asset Management. Is the office or department properly protecting and maintaining its resources?
- Staffing. Is the office or department avoiding idleness and overstaffing with respect to the program being reviewed?

1. WORK PLAN ACTIVITIES (Continued)

1.2.1 Board Of Investment Trustees: Administrative Management Practices Performance Audit

OIG completed and issued a final report on a performance audit of the Board of Investment Trustees (BIT) programs and activities. BIT manages assets of the employees' retirement system through investment managers in accordance with the board's basic asset allocation. The focus of this audit was the effectiveness of BIT fixed asset management, budget practices and administrative expense management, governance and management controls, and implementation of prior audit recommendations. The report also included the results of the OIG investigation into the activities of a former director. (See item 1.5.) The report contained 24 findings and recommendations. BIT concurred with one, concurred in part with nine and indicated it was already implementing an additional five.

1.2.2 Montgomery County Government Ride-On Management Overtime

OIG completed and issued a final report on a performance audit of the policies and procedures controlling overtime practices of management staff at Ride-On a division within the Department of Public Works and Transportation (DPWT). OIG contracted with Gardiner, Kamya, & Associates, P.C. to conduct the fieldwork portion of this audit. Ride-On provides fixed-route bus service in neighborhoods throughout the County and coordinates with WMATA bus and rail service. This audit concentrated on the internal controls surrounding the use of supervisory overtime and related staffing issues and a review of the data reliability and methodological validity of Ride-On's program measures. Ride-On management agreed that controls over supervisory overtime were weak. The report contained five findings and recommendations. Management concurred with one and concurred in part with four.

1.3 Inspections – Completed And Works In Progress

An OIG inspection is aimed at evaluating, reviewing, or analyzing programs and activities of departments or offices for the purpose of providing information to policy makers and managers for decision making, for making recommendations for improvements to programs, policies, or procedures, and for administrative action. An inspection addresses situations where a topic or issue crosses departmental or agency boundaries and has countywide implications. Examples of issues or topics that might be the subject of an OIG inspection include travel, telephone and computer usage, take-home vehicles, best practices, etc.

1. WORK PLAN ACTIVITIES (Continued)

Montgomery County Government Commercial Driver's Licenses Review

OIG began a review of the license status for holders of commercial driver's licenses (CDL) employed by Montgomery County Government as an integrity check. The County has nearly 950 positions requiring a CDL as a condition of employment. Most of these employees are employed in DPWT, drive Ride-On buses, and operate heavy equipment. Several other departments have one or more positions requiring a CDL. CDL regulations were enacted at the federal and state level to ensure public safety with regard to the maintenance and operation of commercial vehicles. In addition, OIG is reviewing departmental policies and procedures for maintaining federally required information about CDL holders and drug and alcohol testing programs. Planning and fieldwork were completed during FY 04. A draft report has been prepared.

1.4 Complaints Processing

In order to achieve the stated goals of the office, OIG seeks input from various stakeholders. OIG encourages stakeholders to contact the office to provide information pertaining to suspected weaknesses in program operations. Complaints are received in writing, by telephone, e-mail, or in person. Each complaint is logged and documented and OIG staff evaluates each complaint for credibility and relevancy to the OIG mission. Complaints can form the basis of an investigation, particularly into allegations of fraud, waste, and abuse, or of a performance audit or inspection. Complaints can be resolved in several ways: (1) through the issuance of an OIG report following a formal audit or investigation, (2) by referral to another agency better situated to address the complaint, or (3) for administrative reasons, such as, unsupported/insufficient evidence or lack of jurisdiction. Open complaints are categorized as active or pending. Active complaints involve critical, time-sensitive issues, such as an allegation of fraud, and therefore have priority. Pending complaints involve issues that may merit further OIG review but resources preclude an immediate resolution.

Over the years, OIG has served an important "whistle-blower" function. On average each year OIG receives at least five complaints from employees or anonymous sources providing credible evidence that a matter involving fraud, waste, and abuse was first reported to County government or independent County agency but was not adequately addressed. Several of these complaints have resulted in investigations and public reports.

Complaints

OIG began FY 2004 with 55 open complaints. From July 1, 2003 to June 30, 2004 the office received 60 new complaints. During that period the office disposed of 57 complaints and as of June 30, 2004 had 58 open. Of the 60 complaints received by OIG during the year, 4 (6.7 percent) were received from persons employed by the County or an independent agency, 51

1. WORK PLAN ACTIVITIES (Continued)

(85.0 percent) were received from citizens. The remaining five complaints (8.3 percent) were anonymous.

The 57 complaints disposed of during FY 2004 were disposed of in three ways. Some complaints were closed for administrative reasons, such as lack of evidence, lack of jurisdiction, or if it was otherwise unsupported. Other complaints were closed by referring the issue to another department, office, or agency, where appropriate, for resolution by that organization and three complaints were closed by the issuance of reports.

Table 1 Comparison of Complaints — FY02, 03, and 04			
Complaints Caseload Analysis	FY02	FY03	FY04
Open – Beginning of Year	54	59	55
Received During Year	68	60	60
Closed – Administrative	51	58	37
Closed – Referral	4	6	17
Closed – Report Issued	8	0	3
Open – End of Year	59	55	58
Complaints Open Status			
Active	38	16	17
Pending	21	39	41
Total	59	55	58
Source Of Complaints			
Employees	12	14	4
Non-Employees	50	40	51
Anonymous	6	6	5
Total	68	60	60
Type of Complaints			
Fraud, Waste, or Abuse	38	28	26
Efficiency/Effectiveness	N/A	18	23
Other	30	14	11
Total	68	60	60

Source: OIG analysis.

1. WORK PLAN ACTIVITIES (Continued)

1.5 Investigations – Completed And Works In Progress

One of the goals of the OIG, as stated in the office's enabling legislation, is to prevent and detect fraud, waste, and abuse in government activities. The primary tool OIG uses in its efforts to prevent and detect fraud, waste, and abuse is an investigation. An investigation often begins as the result of a complaint alleging a violation of laws and regulations or the public trust. Investigations are generally more narrowly focused on the activities of an individual in contrast to a broader program performance audit. The office initiates an investigation only upon sufficient and credible information alleging fraud, waste, and abuse. Investigations are often conducted in close coordination with other entities, such as law enforcement and regulatory agencies.

Board Of Investment Trustees – Conduct Of A Former Director

OIG concluded an investigation of a former director after detecting significant inappropriate use of his County-issued credit card. The investigation documented serious abuse of the County-issued credit card for personal gain, other financial abuses involving the use of retirement plan trust funds incurred during non-local travel events and for employee development activities, and non-compliance with County ethics law provisions. This conduct constituted a violation of the public trust. Subsequently, the former director resigned. OIG coordinated its investigative activities with the State's Attorney Office and the Department of Finance Internal Audit Section. Results of this investigation were included in the BIT audit report. (See item 1.2.1.)

1.6 Follow-Up

Much of the benefit from audit work is in the effective implementation of recommendations made rather than simply in the findings reported. Auditee management is responsible for resolving audit findings and recommendations. Having a process to track the status of implementation of recommendations can help management fulfill this responsibility.

Implementation of audit recommendations is crucial to the improvement of program efficiency and effectiveness. Programs are subject to audit by both internal and external audit entities. Government auditing standards encourage auditors to establish a process to follow-up on audit recommendations. To fulfill that standard, OIG collects audit reports on programs under its jurisdiction and has developed a database to assist in monitoring agency implementation of recommendations. The database includes findings issued, recommendations made, auditee response to findings and recommendations, and status of recommendation implementation. The OIG review of audit implementation takes two forms. First, all OIG performance audits include a section on prior audit implementation if the program has been subject to a prior audit. Second, OIG will periodically select a department

1. WORK PLAN ACTIVITIES (Continued)

or program that would not otherwise be included in our work plan and review prior audit implementation status as a separate project.

1.7 Integrity Checks

OIG periodically reviews and compares various government databases containing information pertinent to County government and independent County agency programs and operations. An integrity check is a valuable tool OIG uses in its efforts to prevent and detect fraud, waste, and abuse. In the interest of maintaining maximum deterrent value, OIG prefers not to describe specific checks. However, the following hypothetical situations might be instructive. For example, in programs where employees or contractors are required to hold licenses or certifications or where specific safety training or insurance is required as a condition of employment or contract, OIG might compare employee rosters and vendor lists with licensing, certification, training organizations, or insurers. Integrity checks may often serve as the catalyst for further audits, inspections, or investigations. During FY 2004, we conducted a check to determine whether all County employees holding a position requiring a commercial driving license were appropriately licensed. The preliminary results of the check identified a number of discrepancies sufficient to justify a more thorough inspection of the management controls over this important accountability issue. The resulting inspection project is currently nearing completion and a draft report has been prepared. (See item 1.3.)

To facilitate the efficiency and effectiveness of integrity checks, OIG utilizes IDEA, a nationally recognized data analysis software program used by many private sector accounting and auditing firms. All OIG staff is trained in the use of this software.

1.8 Administrative Issues

In addition to completing audits, inspections, complaints processing, investigations, integrity checks, and audit follow-up activities described above, OIG is also involved in many administrative issues and tasks that take up time and other valuable resources.

1.8.1 Professional Development

OIG's staff of three auditors possessed an array of graduate and professional degrees including master of business administration, master of public administration, and juris doctor. In addition, one auditor is a certified public accountant, one is a certified internal auditor, and one is a certified fraud examiner and a certified inspector general. Generally accepted governmental auditing standards require OIG auditors to obtain 80 hours of

1. WORK PLAN ACTIVITIES (Continued)

continuing professional education (CPE) during a two-year period. For OIG quality control purposes, the most recent two-year period began on July 1, 2002 and ended on June 30, 2004. All auditors were in compliance with CPE requirements as of June 30, 2004. CPE courses taken by OIG auditors during the past year included such topics as sampling, use of IDEA, a data-mining program, and contract and procurement fraud.

OIG auditors maintain memberships in several professional associations. Current affiliations include the American Institute of Certified Public Accountants, the Association of Certified Fraud Examiners, the Association of Inspectors General, and the National Association of Local Government Auditors.

1.8.2 Quality Control

Generally accepted governmental auditing standards require OIG to have in place an appropriate internal quality control system and to undergo an external quality control review at least once every three years.

The nature and extent of an organization's internal quality control system depend on a number of factors, such as its size, the degree of operating autonomy, the nature of its work, its organizational structure, and appropriate cost/benefit considerations. Because OIG is a small organization consisting of four employees, its internal quality control system is less formal than that which would be found in larger organizations. The OIG follows applicable auditing and investigative standards and has established audit and investigative policies and procedures. The updated policies and procedures manual is available from our office or on-line for review.

In April 2004, OIG underwent its second triennial peer review done under the auspices of the National Association of Local Government Auditors. The peer review found OIG to be in compliance with professional standards.

Additional recognition of the quality of OIG work came in May 2004 from its peers at NALGA which gave OIG an honorable mention for a Special Project – “Animal Services Division Follow-Up Report,” published the previous year. This was the only honorable mention given for a Special Project to a small audit shop.

1.8.3 Professional Liaison

OIG meets periodically with representatives of other County government and independent County agency audit, investigative, and program evaluation offices to share information and to discuss audit and other matters of mutual concern. These offices include the Office of Legislative Oversight, the Internal Audit Section of the Department of Finance, and auditors

1. WORK PLAN ACTIVITIES (Continued)

and evaluators from the Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, Montgomery College, and the Washington Suburban Sanitary Commission. OIG also meets on occasion with other local auditors, state agency auditors, as well as inspectors general of various federal agencies and the District of Columbia.

1.8.4 Staff Turnover

During the first six years of operation OIG had an unusually stable staff complement. All staff was hired initially in 1998. However, in May 2004, the Inspector General resigned to take a new position one year in advance of the end of his term. In June, the Deputy Inspector General announced his retirement after 30 years of service to the residents of Montgomery County. The County Council has moved quickly to create the statutorily required committee to recommend three candidates for the position of Inspector General.

2. BENCHMARKING

Benchmarking government services is often easier said than done. The inspector general believes that perfect benchmarks do not exist for most programs and that program managers who wait for perfect or near perfect measures and perfect or near perfect control groups will most likely never begin the benchmarking process. Six years ago OIG began the practice of benchmarking using comparative data from the National Association of Local Government Auditors. For this year's analysis OIG uses the NALGA 2002 Benchmarking and Best Practices Survey (the most recent completed survey). OIG has regularly participated in and strongly supports this continuing NALGA effort. Respondents in Group 2 are identified as the OIG peer group. (Group 2 includes audit shops containing 3+ to 12 auditors). This year OIG reports on operations for 2002, 2003, and 2004.

NALGA is made up of local government audit professionals throughout the United States and Canada. Members are elected and appointed executive, legislative, and judicial branch auditors from large-, medium-, and small-sized audit shops. These audit shops perform financial statement audits, financial related audits, performance audits, program evaluations, policy analyses, management consulting services, and more. OIG use of NALGA benchmarking and best practices data for comparative purposes is not perfect, but this office believes it is the best data available.

Table 2 Audit Staffing and Spending Comparisons			
Group	# of Audit Depts.	Full Time Audit Staff	Annual Audit Spending
FY 02 PEER	31	3+ to 12 Auditors	\$246,000 - \$911,000
FY 02 OIG	--	3 Auditors	\$ 540,644
FY 03 OIG	--	3 Auditors	\$ 612,556
FY 04 OIG	--	3 Auditors	\$ 537,815

Source: OIG analysis of NALGA and OIG data.

2. BENCHMARKING (Continued)

The NALGA report identifies the resource inputs that were made available to audit departments and the resulting outputs and outcomes from their work. These data are commonly found in the audit departments' annual budgets and spending reports, and in internal time management and activity reports that identify the type and number of reports issued, the audit time used, audit recommendations, and the projected financial savings that may have resulted from their work. OIG audit spending shown here includes not only budgeted amounts but also a County overhead rate and rent which is in another department's budget.

2.1 Staff Time Allocation

Comparing direct time to available time and total time are ways to measure audit efficiency. In order to more easily understand the concepts of direct time to available time and total time it is necessary to define those terms. "Direct Time" includes all hours spent on audits, follow-up audits, or other similar activities. "Indirect Time" includes hours used for everything else including general management, training, and other indirect activities. "Benefit Time" includes vacation, holiday and sick leave, and other paid leave.

The computations used to prepare data for comparing direct time to available time and total time are as follows:

$$\begin{aligned}\text{Available Time} &= \text{Direct Time} + \text{Indirect Time;} \\ \text{Total Time} &= \text{Available Time} + \text{Benefit Time.}\end{aligned}$$

Table 3 Staff Time Allocation		
Group	Direct Time to Available Time	Direct Time to Total Time
FY 02 PEER	72%	62%
FY 02 OIG	69%	59%
FY 03 OIG	74%	62%
FY 04 OIG	73%	57%

Source: OIG analysis of NALGA and OIG data.

2.2 Cost Per Billable Hour

What does it cost to operate the OIG? A number of government audit organizations have historically used "cost per billable hour" rates to compare their operations to other

2. BENCHMARKING (Continued)

government audit shops and outside CPA consulting firms. For an audit shop to compare its true cost of operation with the private sector, the audit shop needs to develop a billing rate that fully absorbs all its operating costs, in particular, the general and administrative cost that is paid by the audit organization. This includes costs not allocated to the audit department, such as office space, central services for mail delivery, payroll, and human resources support activities. In addition, the audit department must identify the direct audit time used while completing ongoing assignments. Most professional services firms that quote hourly rates must absorb the firm's indirect cost through its direct billable hours.

The billable hourly rate shown for the peer group is based on the reported direct time calculated by the surveyed audit shops. NALGA reported that just 53 percent of the survey respondents included any additional general and administrative costs paid by the host organization. The general and administrative costs averaged 14 percent of the reported costs needed to run an audit shop. OIG's comparable overhead costs average over 20 percent. The "Cost Per Billable Hour" rates exclude all payments made to outside consultant firms.

OIG costs per billable hour remain considerably higher than those for the peer group. There are several possible reasons for this. The cost of living is generally higher in the Washington metropolitan area than in many other areas of the country. Additionally, OIG data on cost include a 13.15 percent overhead rate for central services and \$62,013 for office rent not included in the OIG operating budget. If OIG excluded overhead and rent costs from its cost per billable hour calculation, the hourly rate would be **\$129.98**, \$36.27 per hour less.

Table 4 Cost Per Billable Hour	
Group	Cost Per Billable Hour
FY 02 PEER	\$ 73.57
FY 02 OIG	\$137.13
FY 03 OIG	\$146.81
FY 04 OIG	\$166.25

Source: OIG analysis of NALGA and OIG data.

2.3 Taxpayer Return

Not all OIG activities result in measurable dollar savings. Deterrence, improved processes, and increased accountability are very important "products" in an inspector general operation and difficult to quantify. However, one measurable outcome for auditors is dollars saved compared to audit dollars spent. OIG uses the federal inspector general model to define "savings." That model includes "unsupported costs," "questioned costs," and uncollected revenue in the definition of savings. During OIG's existence we have published 21 project reports of which 11 have identified savings, uncollected revenue, or questioned costs of \$3,049,998. These "savings" include just under \$1.6 million in one-time savings and \$1.45 million in ongoing savings. The cost to produce all 21 reports was \$1,988,903 including

2. BENCHMARKING (Continued)

OIG and county overhead. Thus, **OIG's overall historic cost recovery is \$1.53 per audit dollar spent, a positive return for the County's taxpayers.**

2.4 Best Practices

An important component of benchmarking is looking at best practices across similar organizations. OIG participates in the best practices section of the NALGA benchmarking study. Best practices are organized into the following topic areas: Business Planning, Measuring Results, Professional Audit Standards, Audit Activities, and the Use of Automated Audit Tools. Some of the items are more relevant to an internal audit or other executive branch audit function. OIG continues to monitor progress in these areas. Areas where the office places emphasis on improvement include both long- and short-term planning and identifying organizational risks. OIG continues to stress the importance of audit implementation through its follow-up program. OIG is the only peer-reviewed audit operation in County government and follows professional standards for its work.

3. CONCLUSION

During FY 2004 OIG completed and published the results of three major projects: investigation of a former director of the Board of Investment Trustees; an audit of the administrative management practices of the Board of Investment Trustees; and a review of the controls over supervisory overtime in Ride-On. The office also successfully completed its second peer review and received notice of an honorable mention for the Animal Services Follow-Up report published the prior year. The Inspector General announced his resignation in April 2004. This was followed by the retirement announcement of the Deputy Inspector General in June 2004. This office wishes to thank Norm Butts and Dave Newcomer for their years of service on behalf of the residents of Montgomery County.